

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6121

BILL NUMBER: HB 1497

DATE PREPARED: Nov 21, 2000

BILL AMENDED:

SUBJECT: College Contribution Income Tax Credit.

FISCAL ANALYST: Brian Tabor

PHONE NUMBER: 233-9456

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill increases the maximum income tax credit for contributions by individuals to Indiana colleges from \$100 to \$200 for single returns and from \$200 to \$400 for joint returns.

Effective Date: January 1, 2001 (retroactive).

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate these changes. These expenses could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: This bill would reduce tax liabilities for individuals who make charitable contributions to Indiana's higher education institutions in excess of the current limits. *The potential annual fiscal impact beginning in FY 2002 is estimated to be up to \$4.7 M in lost individual income tax revenue.*

Current law provides that the college credit is limited to 50% of charitable contributions to an institution of higher education located in Indiana, or a maximum of \$100 for a single taxpayer or \$200 for taxpayers filing a joint return. Under this proposal, the maximum credits allowed would be increased to \$200 for single filers or \$400 for joint filers for tax years beginning January 1, 2001.

Data and Estimation: According to 1998 DOR individual income tax data, 82,327 taxpayers claimed \$7.8 M in credits for contributions to Indiana's higher education institutions. Of this total, 8,112 out of 19,054 single filers took the full \$100 maximum credit, and 19,590 out of 63,273 joint filers took the \$200 maximum. Of those that did *not* take the maximum, the average credit taken by single filers was \$37 or 37% of the limit and the average credit taken by joint filers was \$62 or just 31% of the \$200 maximum.

This bill would increase the college credit limits for single and joint filers by 100%. It is unlikely that those taxpayers currently taking less than the maximum would increase their contributions solely due to a raise in

the credit limit. However, if all taxpayers currently taking the maximum credit were to increase their contributions to at least twice the new limits (the credit being equal to 50% of contributions) while all others remain at current levels, the total impact would be a revenue loss of approximately \$4.7 M.

Any additional revenue loss will occur in FY 2002 as this proposal applies to tax years after December 31, 2000. Individual income tax revenue is deposited in the General Fund.

Impact on Higher Education Institutions: This bill may result in an increase in charitable contributions to institutions of higher education. The portion of any increase which will be realized by state institutions is not known.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Institutions of higher education in Indiana.

Local Agencies Affected:

Information Sources: DOR's 1998 individual income tax data.